

Section **6**

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# Banking

## **Section 6: Banking**

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### **Title 1, Bank Accounts and Investments**

#### **Bank Accounts**

Bank accounts may only be established and maintained in financial institutions whose deposits are federally insured. Bank account balances (including checking and investment accounts combined) must not exceed the amount federally insured unless the financial institution pledges collateral for any deposits in excess of the insured limits and the collateral is maintained in accordance with state statutes.

**NOTE:** For additional information regarding collateral requirements and the State of Tennessee Bank Collateral Pool, you may call the Department of Treasury, Division of Cash Management, (615) 532-1168, or the Comptroller of the Treasury, Division of Municipal Audit, (615) 741-1871.

Most banks offer interest bearing checking accounts. The principal should review the various account options provided by their bank to ensure maximum returns on all cash balances.

A combined checking account should be established for the general fund and restricted fund accounts. The food service fund should have a separate checking account.

#### **Investments**

Excess internal school money should be invested to maximize interest earnings. All investments of internal school funds should comply with state statutes. Investment options include savings accounts, certificates of deposit, etc.

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### **Title 2, Deposits**

#### **Frequency of Bank Deposits**

Collections should be deposited daily, if possible, but no more than three days after the initial collection. Night deposits may be necessary to avoid large sums of cash being on hand overnight.

#### **Intact Deposits**

Collections should be deposited intact. Intact means that collections are deposited in the form and amount in which they are collected. All money collected must be deposited in the next deposit. No collections should be withheld from the deposit for any reason.

#### **Deposit Slips**

Deposit slips must be completed in duplicate. All checks should be listed individually on the deposit slip or an attached list, itemizing the name of the payer and the amount. The receipt numbers comprising the deposit should be written on the deposit slip. The validated duplicate deposit slip or the duplicate deposit slip with deposit receipt attached should be given to the bookkeeper.

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### **Title 3, Checks**

#### **General**

All money must be disbursed by prenumbered checks (except for disbursements from petty cash accounts authorized by the board of education). A check must not be altered, erased or destroyed. Should an error be made in preparing a check, the word "VOID" should be written on the face of the check, the signature section should be removed, and the check should be retained on file for future reference and audit purposes. **Checks must not be signed in advance of their preparation and issuance.** Checks must not be made payable to "Cash."

Checks must be prenumbered. All check numbers must be used sequentially and accounted for. The name of the school must appear on the face of each check. The use of duplicate or multi-part checks is strongly recommended since the additional copies can be filed with paid invoices as well as filed numerically. If a manual check-writing system is used, pertinent information must be recorded on the check stubs.

#### **Signatures on Checks**

Two signatures are required for all checks. In most cases, the principal or principal's designee together with at least one other person must be authorized as cosigners of checks of all internal school fund accounts. Authorized signature cards must be kept current with banks. Before signing checks, each signatory should review adequate supporting documentation (such as vendor invoices, purchase authorizations, etc.).

#### **Voided Checks**

In some instances, it may be necessary to void a check recorded in the cash disbursements journal. If a replacement check is written, the new check should be reissued and a general journal memo entry should be made to record the new check in the accounting records. The outstanding check list should also be updated. No revenue or expenditure accounts will be affected. If a replacement check is not issued, an entry in the General Journal must be made for the amount of the original check to restore the amount of the check to the "Cash in Bank" account (debit the cash account and credit the appropriate expenditure account).

## **Outstanding Checks**

All checks outstanding for more than one year should be canceled (written off). When canceling checks, the same procedures should be used as for voided checks.

## **“Bad” Checks**

Some checks deposited by the school may be returned by the bank for various reasons. The proper procedure for handling checks of this type is as follows:

### **1. Checks Made “Good”**

If the maker of the returned check immediately redeems the check in cash (i.e., makes the check “good”), the money received must be deposited separately from any other money. The deposit ticket for this special redeposit should be labeled as “Redeposit of Check Number \_\_\_\_” and should identify the payer. Cash received in exchange for a returned check is not considered additional revenue of school funds. It is not necessary to make any entries in the books of record.

### **2. Checks Never Made “Good”**

If it is determined by the principal that a returned check is uncollectible, the amount of the returned check must be recorded in the cash receipts journal as a reduction of school collections. The amount of the “bad” check must also be deducted from the available bank balance with a complete explanation. The “bad” check must be filed with the bank statement for substantiation of the above entry.

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### **Title 4, Bank Reconciliations**

#### **General**

Bank statements must be reconciled with the cash balances presented in the accounting records (general ledger) as of the end of each month. Bank reconciliations should be prepared within 30 days after the bank statements are received from the bank. Canceled checks must be retained on file with the applicable bank statements for future reference and audit purposes and should not be filed with paid invoices or purchase authorizations.

**NOTE:** If imaged statements are issued, the school should require the bank to include both the back and front of each check and deposit slip, and require that the images be of such quality and size that they are clearly legible. If deposit slips are not returned with the bank statement, validated duplicate deposit slips (or duplicate deposit slips with deposit receipt attached) must be retained.

#### **Procedures**

- a) Enter the ending balance, as shown on the bank statement, on the appropriate line of the bank reconciliation form.
- b) Match all duplicate deposit slips with deposits listed on the bank statement and in the cash receipts journal.
- c) Those deposits listed on the cash receipts journal which were not matched with deposits listed on the bank statement represent “Deposits in Transit.” List all deposits in transit and record the total on the appropriate line of the bank reconciliation form.
- d) Scan the bank statement for any bank charges and record the bank charges in the accounting records.
- e) Total the amounts shown on the lines for “Balance per Bank Statement” and “Deposits in Transit” and enter this amount on the “Subtotal” line.

- f) All checks received with the bank statement should be matched with the checks listed on both the bank statement and the cash disbursements journal to identify those checks that have cleared the bank.
- g) List all checks that are shown in the cash disbursements journal that have not yet cleared the bank in the “Outstanding Checks” portion of the bank reconciliation. (Do not include checks written off or voided.)
- h) Add all outstanding checks and enter the amount on the appropriate line.
- i) Subtract the total amount of outstanding checks from the subtotal and enter the amount on the line for “Balance per Books.”
- j) Compare the amount shown on the “Balance per Books” line with the total bank balance shown in the general ledger. These amounts should agree. If not, determine the cause of the difference by examining recorded checks, deposits, bank charges, or other items that could affect the bank reconciliation.

### **Emphasized Internal Control Feature**

Whenever possible, someone other than the person who has responsibility for maintaining the accounting records or issuing checks should receive the bank statements unopened directly from the bank. Transactions reflected in the statements should be reviewed and paid checks scanned before giving the bank statements to the person who prepares the reconciliation. Any unusual or improper transactions noted should be reported to the principal.